

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15
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FM AMEMBASSY MADRID
TO SECSTATE WASHDC 771
INFO AMEMBASSY PARIS

C O N F I D E N T I A L MADRID 4798

USOECD

E.O. 11652: GDS
TAGS: PINT, ECON, EFIN, SP
SUBJECT: BANK OF SPAIN OFFICIAL VIEWS ECONOMIC PROBLEMS

REF: MADRID 4754 (NOTAL)

1. BANK OF SPAIN DIRECTOR GENERAL (DOMESTIC FINANCIAL POLICY) ANGEL MADRONERO TOLD EMBOFFS JUNE 22 THAT TO REDUCE SOARING INFLATION IT IS ESSENTIAL FOR SUAREZ GOVERNMENT TO STRIKE BARGAIN WITH PSOE THAT WILL PERMIT MODERATION OF WAGE INCREASES. WITHOUT WAGE RESTRAINT, ACCORDING TO MADRONERO, RESTRICTIVE MONETARY POLICY WILL ONLY LEAD TO BUSINESS FAILURES AND INCREASED UN EMPLOYMENT WHICH SPANISH SOCIAL FABRIC PRESENTLY CANNOT BEAR.

2. MADRONERO SAID THERE IS GENERAL AGREEMENT AMONG ECONOMISTS THAT CURBING INFLATION IS KEY ELEMENT IN DEALING WITH SPAIN'S ECONOMIC PROBLEMS AND THAT THIS REQUIRES RESTRAINT ON WAGE INCREASES. FOR THIS REASON, BANK OF SPAIN BELIEVES FERNANDEZ ORDONEZ, WHO HAS
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ACCEPTABLE RELATIONSHIP WITH FELIPE GONZALEZ AND OTHER PSOE FIGURES AND CAN DIALOGUE WITH THE LEFT, IS THE BEST CANDIDATE FOR SENIOR ECONOMIC POST IN NEW CABINET. WHILE A FORMAL AND PUBLIC "SOCIAL PACT" IS PROBABLY OUT OF THE QUESTION, MADRONERO BELIEVES FERNANDEZ ORDONEZ COULD BARGAIN TO OBTAIN POLITICAL AGREEMENT TO MODERATE WAGE SETTLEMENTS IN EXCHANGE FOR TAX AND

SOCIAL MEASURES FAVORED BY THE PSOE. BANK OF SPAIN'S POSITION IS THAT WITHOUT A REDUCTION IN WAGE INCREASES A SIGNIFICANTLY MORE RESTRICTIVE MONETARY POLICY (PRESENT TARGET REMAINS A 21 PERCENT ANNUAL INCREASE IN MONEY SUPPLY) WOULD ONLY CAUSE LARGE NUMBER OF SMALLER FIRMS WITH WEAK FINANCIAL STRUCTURES TO FAIL AND INCREASE UNEMPLOYMENT. MADRONERO, WHOSE POLITICAL SYMPATHIES SEEM TO LIE WITH THE PSOE, APPEARS MORE CONFIDENT THAN FERNANDEZ ORDONEZ HIMSELF (REFTEL) THAT POLITICAL BARGAINING FOR WAGE RESTRAINT IS POSSIBLE. LIKE FERNANDEZ ORDONEZ, HE BELIEVES THAT IMF AGREEMENT WITH AND SUPPORT OF A SPANISH STABILIZATION PLAN WILL BE NECESSARY TO BREAK THE PRESENT INFLATIONARY PSYCHOLOGY AND TO ENHANCE PUBLIC ACCEPTANCE OF RESTRICTIVE MEASURES. STABLER

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Message Attributes

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Concepts: INFLATION, ECONOMIC CONDITIONS, BANKS
Control Number: n/a
Copy: SINGLE
Sent Date: 23-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
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